

# SENATE BILL REPORT

## SB 5805

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As Reported By Senate Committee On:  
Agriculture & Rural Economic Development, February 26, 2007  
Ways & Means, March 5, 2007

**Title:** An act relating to the sales and use taxation of grain elevators.

**Brief Description:** Modifying provisions relating to the sales and use taxation of grain elevators.

**Sponsors:** Senators Hatfield, Zarelli, Rasmussen, Swecker, Shin and Hargrove.

**Brief History:**

**Committee Activity:** Agriculture & Rural Economic Development: 2/15/07, 2/26/07 [DPS-WM].

Ways & Means: 3/05/07 [DP2S, DNP].

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### SENATE COMMITTEE ON AGRICULTURE & RURAL ECONOMIC DEVELOPMENT

**Majority Report:** That Substitute Senate Bill No. 5805 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Rasmussen, Chair; Hatfield, Vice Chair; Schoesler, Ranking Minority Member and Jacobsen.

**Staff:** Sam Thompson (786-7413)

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Second Substitute Senate Bill No. 5805 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Prentice, Chair; Zarelli, Ranking Minority Member; Brandland, Carrell, Hatfield, Hobbs, Honeyford, Keiser, Parlette, Rasmussen and Tom.

**Minority Report:** Do not pass.

Signed by Senators Pridemore, Vice Chair, Operating Budget; Regala and Rockefeller.

**Staff:** Dianne Criswell (786-7433)

**Background:** Legislation enacted in 1997 exempts certain grain elevators from paying state sales and use tax on purchases of machinery, materials, and labor for constructing these facilities. The exemption is administered through remittance of tax paid.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

For grain elevators with a capacity of at least two million bushels, the remittance is 100 percent of tax paid for qualifying construction, materials, service, and labor, and 50 percent of tax paid for "qualifying material," including handling and racking equipment and labor and services rendered in installing, repairing, cleaning, altering, or improving the equipment.

New grain elevators that are designed to minimize grain dust explosion risks include supporting structures and equipment that are, in contrast to earlier practice, erected apart from the main elevator structures. Existing law does not authorize the 100 percent tax remittance rate that would otherwise apply to these supporting structures and equipment if they were integrated with the main elevator structure, as in older facilities. They are, instead, subject to the 50 percent tax remittance rate applying to "qualifying material."

It is suggested that the 100 percent tax remittance rate should apply to "qualifying material" that is integrated with, but not part of, grain elevator structures with a capacity of at least two million bushels.

**Summary of Bill:** The state sales and use tax remittance for grain elevators with a capacity of at least two million bushels is expanded from 50 percent to 100 percent of tax paid for qualifying material, including handling and racking equipment and labor and services rendered in installing, repairing, cleaning, altering, or improving the equipment.

The definition of the term "grain elevator" is expanded from "a structure used for storage and handling of grain in bulk" to "a functionally integrated complex consisting of one or more structures used to convey, store, or handle grain in bulk," with several listed, nonexclusive examples.

**EFFECT OF CHANGES MADE BY RECOMMENDED SUBSTITUTE AS PASSED COMMITTEE (Agriculture & Rural Economic Development):** The scope of the bill is narrowed to provide for 100 percent remittance of state sales and use tax paid on equipment and structures for grain exporting facilities built after January 1, 2007, with a capacity of over three million bushels. Three new terms are established and defined:

- "grain exporting facilities," meaning land with one or more grain exporting facility structures built after January 1, 2007, with a total capacity of over three million bushels.
- "grain exporting facility equipment," meaning equipment primarily used to handle, store, organize, or convey grain, oil seeds, and byproducts in bulk to, from, or within grain exporting facility structures, with several listed nonexclusive examples. Equipment in offices, lunchrooms, restrooms, and other space or equipment used for other purposes is excluded.
- "grain exporting facility structure," meaning a variety of structures primarily used to handle, store, organize, or convey grain, oil seeds, and byproducts in bulk, and other necessary operational space, excluding landscaping, parking lots, storage yards, and manufacturing structures.

**EFFECT OF CHANGES MADE BY RECOMMENDED SECOND SUBSTITUTE AS PASSED COMMITTEE (Ways & Means):** Remittance of the state sales and use tax for qualifying grain exporting facility equipment is 50 percent, rather than 100 percent. The definition of grain exporting facility equipment is changed.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** The bill contains emergency clauses and several effective dates. Please refer to the bill.

**Staff Summary of Public Testimony (Agriculture & Rural Economic Development):**

PRO: This bill will clarify current law to enable a large modern export facility with dispersed operations that is proposed for construction at the Port of Longview to benefit from the existing sales and use tax exemption applying to older facilities. The Longview facility will generate economic development in Cowlitz County and provide extra capacity for the anticipated growth in grain exports to Asia and the Middle East.

CON: The tax exemption should not be extended to facilitate construction of a large new grain elevator when existing grain elevators are not operating at capacity.

OTHER: It is unclear why this legislation is necessary when existing Washington grain elevators are not operating at capacity.

**Persons Testifying (Agriculture & Rural Economic Development):** PRO: Randy Ray, Bailey Regan, Jerry Gibson, EGT Development; Ken O'Hollaren, Port of Longview; Ted Sprague, Cowlitz Economic Development Council; Cliff Finch, Aequus; Mark Neer, Etushu.

CON: Mike Burgess, Pacific Northwest Grain Export Association.

OTHER: Heather Hansen, Washington Association of Wheat Growers; Dan Coyne, Washington State Council of Farmer Cooperatives.

**Staff Summary of Public Testimony (Ways & Means):** PRO: This bill offers incentives to bring additional grain exporting capacity to Washington State by providing similar tax benefits as were given to grain elevators in 1997. Many construction costs for new facilities, that would have previously qualified for the remittance, will not qualify now due to changes over the last ten years in facility design and industry practice. Grain exporting is a growing sector, and Washington State should be at the forefront. A new grain exporting facility in Longview will bolster Washington's international trade position, create jobs for Washington farmers, and help the United States grain exporting balance. Construction of this facility will create a lot of jobs and economic development.

CON: Grain elevator operators and exporters in Washington State have concerns about fairness. These tax benefits should apply equally.

**Persons Testifying (Ways & Means):** PRO: Senator Brian Hatfield, prime sponsor; Senator Marilyn Rasmussen, co-sponsor; Mark Neher, EGT/Itochu International; Ted Sprague, Cowlitz Economic Development Counsel; Cliff Finch, EGT/AEQUUS.

CON: Mike Burgess, Pacific Grain Export Association.